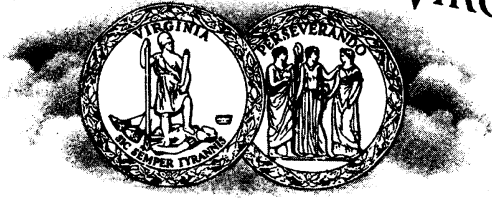


EXAMINATION REPORT
of
PENINSULA HEALTH CARE, INC.
Newport News, Virginia
as of
December 31, 2007

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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RICHMOND, VIRGINIA 23218
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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Peninsula Health Care, Inc. as of December 31, 2007, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 10th day of October, 2008

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
July 3, 2008

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by the authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

PENINSULA HEALTH CARE, INC.

Newport News, Virginia

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Corporation became licensed in Virginia as a health maintenance organization ("HMO") pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on December 13, 1993. The Corporation was last examined by representatives from the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia on January 7, 1993. It was organized as a joint venture between Blue Cross Blue Shield of Virginia, with 51% ownership, and Riverside Healthcare Association, Inc. ("RHA"), with 49% ownership. The Corporation commenced business on February 1, 1994 as a for-profit Individual Practice Association HMO.

During 1996, Blue Cross Blue Shield of Virginia became Trigon Insurance Company ("Trigon"). Effective July 1, 1998, Trigon contributed its outstanding shares of the Corporation to Trigon Administrators, Inc. ("Trigon Administrators"). Effective March 31, 2001, Trigon Administrators was sold and the outstanding shares of the Corporation were distributed to Trigon Healthcare, Inc. ("Trigon Healthcare").

On July 31, 2002, Trigon Healthcare and Anthem, Inc., a publicly traded company incorporated in Indiana, completed a merger in which Trigon Healthcare was merged into a wholly-owned subsidiary of Anthem, Inc. ("Anthem") that subsequently changed its name to Anthem Southeast, Inc. ("Anthem Southeast").

On November 30, 2004, Anthem and WellPoint Health Networks, Inc. ("WellPoint Health Networks") completed a merger in which WellPoint Health Networks and all WellPoint subsidiaries merged with and into Anthem Holding Corp., a direct and wholly-owned subsidiary of Anthem with Anthem Holding Corp. as the surviving entity in the merger. In connection with the merger, Anthem amended its articles of incorporation to change its name to WellPoint, Inc. ("WellPoint") At December 31, 2007, Anthem Southeast owns 51% of the Corporation's outstanding common stock and the remaining 49% is owned by RHA.

CAPITAL AND SURPLUS

At December 31, 2007, the Corporation's capital and surplus was \$33,497,860. According to the Articles of Incorporation, the Corporation has the authority to issue 5,000 shares of common stock with a par value of \$1 per share. As of December 31, 2007, 5,000 shares were outstanding, with paid in surplus of \$9,995,000 and unassigned funds (surplus) of \$23,497,860.

NET WORTH REQUIREMENT

Section 38.2-4302 of the Code of Virginia states that an HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than \$600,000, up to a maximum of \$4,000,000. 14 VAC 5-210-60 A requires that an HMO calculate and report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Because the sum of the Corporation's uncovered expenses for the three-month period ending December 31, 2007 was \$4,259,492, the Corporation's minimum net worth requirement at December 31, 2007 was \$4,000,000.

MANAGEMENT AND CONTROL

The bylaws of the Corporation provide that the business and affairs of the Corporation shall be managed by the Board of Directors (the "Board"). The minimum number of Directors shall be seven and the maximum number shall be nine. A majority of the Directors elected to hold office shall constitute a quorum for the transaction of business.

The officers of the Corporation shall consist of a Chairman of the Board, Vice-Chairman of the Board, President, Secretary and Treasurer. Other officers may include one or more Vice Presidents and such other officers as may be deemed necessary or advisable to carry on the business of the Corporation. Any two or more offices may be held by the same person.

At December 31, 2007, the Board and Officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Wade D. Broughman	Executive Vice President and Chief Financial Officer Riverside Healthcare Association, Inc. Newport News, Virginia
Thomas R. Byrd	President and Chief Executive Officer Anthem Southeast, Inc. Richmond, Virginia
William B. Downey	Executive Vice President and Chief Operating Officer Riverside Healthcare Association, Inc. Newport News, Virginia
Colin S. Drozdowski	Vice President, Network Development Anthem Blue Cross and Blue Shield Richmond, Virginia
Barry L. Gross, M.D.	Executive Vice President and Chief Medical Officer Riverside Healthcare Association, Inc. Newport News, Virginia

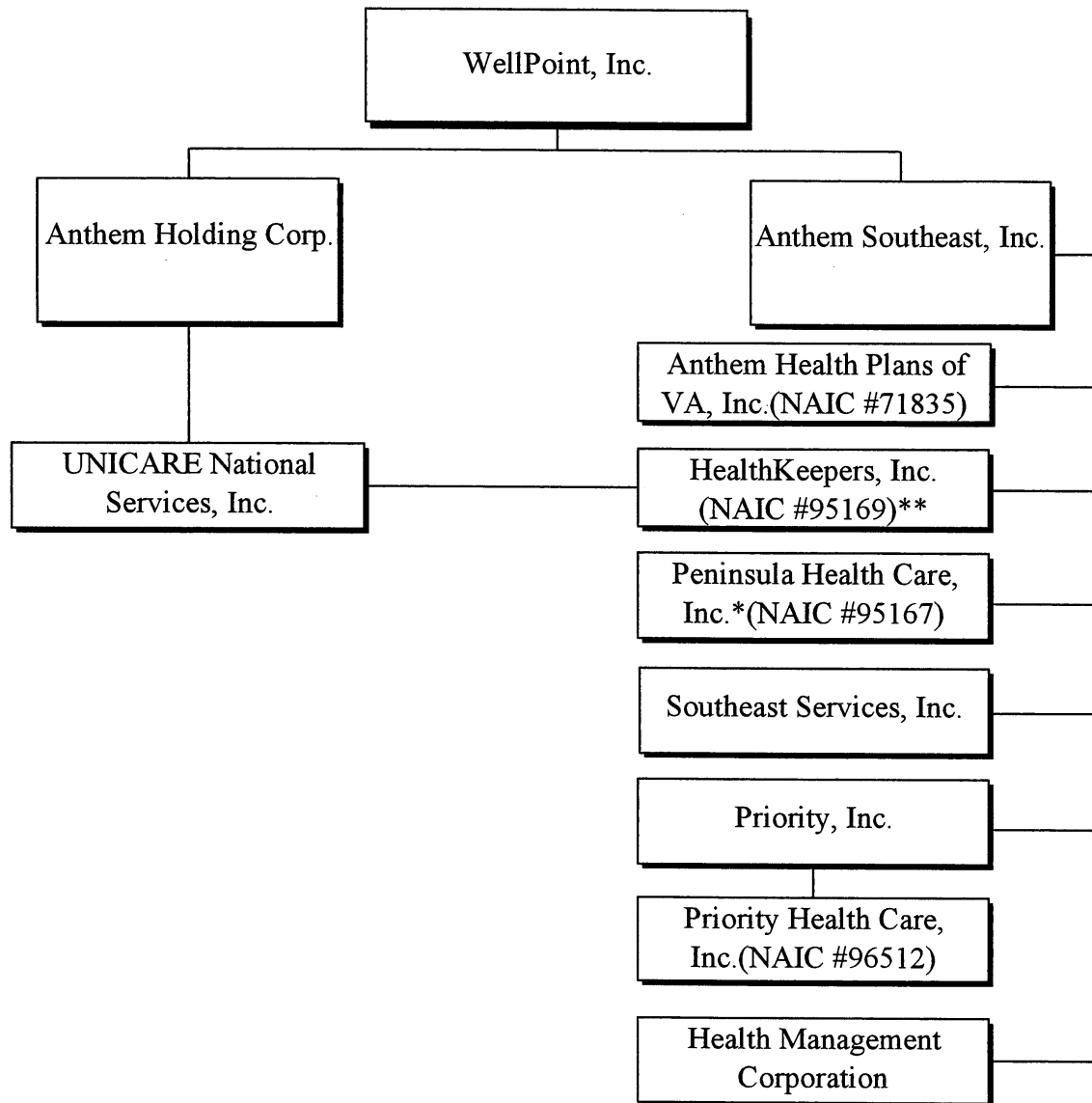
C. Burke King	Vice President, Product Management/Development Anthem Blue Cross and Blue Shield Richmond, Virginia
Richard J. Pearce	President and Chief Executive Officer Riverside Healthcare Association, Inc. Newport News, Virginia
JoAnn H. Perkins	Regional Vice President, Underwriting Anthem Blue Cross and Blue Shield Richmond, Virginia
George F. Ricketts, Jr.	Regional Vice President, Virginia Group Sales Anthem Blue Cross and Blue Shield Richmond, Virginia

Officers

Richard J. Pearce	Chairman
Thomas R. Byrd	Vice Chairman/President
Robert D. Kretschmer	Treasurer
Nancy L. Purcell	Secretary
S. Owen Hunt	Assistant Secretary
Leslie L. Brunick	Chief Financial Officer
Colin S. Drozdowski	Vice President-Provider Network Management
Sally E. Hartman	Vice President and Assistant Secretary
Carter V. Reid	Vice President-Operations

AFFILIATED COMPANIES

At December 31, 2007, Anthem Southeast owned 51% of the Corporation's outstanding common stock and the remaining 49% was owned by RHA. Anthem Southeast is a wholly-owned subsidiary of WellPoint. The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2007.



* Peninsula Health Care, Inc. is 51% owned by Anthem Southeast, Inc. and 49% owned by Riverside Healthcare Association, Inc.

** HealthKeepers, Inc. is 88.89% owned by Anthem Southeast, Inc. and 11.11% owned by UNICARE National Services, Inc.

TRANSACTIONS WITH AFFILIATES

Master Administrative Services Agreement

Effective January 1, 2006, the Corporation entered into a Master Administrative Services Agreement with WellPoint and its subsidiaries and affiliates (collectively referred to as the "affiliates"). According to the agreement, each affiliate that is party to the agreement may provide certain administrative, consulting and support services to another affiliate upon request. The affiliate rendering services shall be reimbursed for the direct and indirect costs and expenses incurred in providing such services and reimbursement is due within 30 days upon receipt of a statement for the services rendered. The term of the agreement is one year and shall be automatically renewed for additional one-year periods unless terminated upon 90 days written notice. The Corporation incurred \$7,230,193 in fees related to the agreement in 2007.

Accounts Payable Agreement

Effective October 8, 2004, the Corporation entered into an Accounts Payable Agreement with and among Anthem, Inc. (currently WellPoint, Inc.), Anthem Insurance Companies, Inc., The Anthem Companies, Inc., Anthem Services, Inc., Anthem Health Plans of Virginia, Inc. ("AHPVA"), HealthKeepers, Inc. and Priority Health Care, Inc. According to the agreement, in order to achieve administrative efficiencies each of the above parties can act as a transfer agent for any of the other parties. As such, the transfer agent takes on the responsibility for transmitting or receiving payment with respect to an account receivable owed by or to another party, affiliate or non-affiliate. The transfer agent agrees to transmit any payment it receives on behalf of a party with respect to an account receivable within the month following the date payment is received by the transfer agent. Likewise, a party for whom a transfer agent has made payment of an account receivable on its behalf will reimburse the transfer agent within the month following the payment. No service fee will be charged and the transfer agent will bear its own cost in performing its services pursuant to the agreement. The initial term of the agreement is one year and it shall renew automatically for one-year terms. A party may terminate its participation in the agreement by giving written notice to all other parties six months in advance.

Excess Medical Stop Loss Agreement

Effective January 1, 2000, the Corporation entered into an Excess Medical Stop Loss Agreement with Trigon Insurance Company (currently AHPVA). Pursuant to the agreement, AHPVA shall reimburse the Corporation 100% of the losses paid during the twelve-month policy period ending December 31, 2007 in excess of the following deductibles:

1. \$200,000 for losses paid for each person enrolled under non-Medicaid contracts.
2. \$150,000 for losses paid for each person enrolled under Medicaid contracts.

For the purposes of this policy, losses are defined as amounts that are actually paid by the Corporation for medical expenses covered under the contract; in settlement of claims for medical expenses covered under the contracts; or in satisfaction of judgments for medical expenses covered under the contracts. Medical expenses are defined as covered charges for inpatient services rendered by hospitals, rehabilitation and skilled nursing facilities to persons enrolled under contracts and transplant services fees charged by transplant service providers. For hospital, rehabilitation, skilled nursing facility or transplant services expenses, each expense shall be deemed to be incurred upon the date of admission to the hospital, rehabilitation or skilled nursing facility.

This agreement contains a provision that requires the Corporation to pay AHPVA up to a maximum of 30% of the initial premium in the event that the paid losses exceed 85% of the initial premium. Conversely, AHPVA is required to return to the Corporation up to 30% of the initial premium when paid losses are less than 85% of the initial premium.

The maximum lifetime excess insurance indemnity payable under this agreement for any one member shall not exceed \$2,000,000. The agreement includes a continuation of coverage clause and a benefits conversion clause in the event of the Corporation's insolvency. Premiums and claims ceded to AHPVA related to this agreement during 2007 were \$1,635,749 and \$2,697,144, respectively.

Solvency Guarantee Agreement

At December 31, 2007, the Corporation's contractual and financial obligations to its customers were guaranteed by AHPVA through a solvency guarantee agreement. This agreement was effective January 1, 1996 and remains in effect until prior written notice of termination has been given by either party to the other.

Pharmaceutical Service Agreement

Effective January 1, 2004, the Corporation entered into a Pharmaceutical Service Agreement with Anthem Prescription Management, LLC ("APM") to provide covered pharmacy services to the Corporation's members. As compensation for these services, the Corporation shall pay APM an ingredient cost and a dispensing fee per covered pharmaceutical, which is dependent on whether the pharmaceutical is a brand or generic pharmaceutical and whether it is dispensed through APM's national network of participating retail pharmacies, through APM's network of participating retail pharmacies

in Virginia or through APM's mail order pharmacy. Either party may terminate the agreement upon three months advance written notice. The Corporation incurred \$0 in fees related to the agreement in 2007.

Services Agreement with Health Management Corporation

Effective January 1, 2002, the Corporation entered into a Services Agreement with Health Management Corporation ("HMC") to administer its Family Health Program. The Family Health Program includes a 24-hour toll free nurse line, the Corporation's Baby Benefits Maternity Management and Chronic Disease Management products. As compensation, the Corporation pays a predetermined per member, per month amount to HMC. The agreement had an initial term of one year and renews automatically for one-year terms thereafter. Either party may terminate the agreement upon three months advance written notice. The Corporation incurred \$1,007,185 in fees related to the agreement in 2007.

Service Agreement with Riverside Health Association

Effective October 1, 1997, the Corporation entered into a Service Agreement with RHA. Pursuant to the terms of the agreement, RHA shall provide certain human resource services, payroll and administrative services, as well as nurse advisor and disease management services. Fees for these services are based on a rate schedule that is reviewed at six month intervals to determine if adjustments are warranted. Expenses incurred by the Corporation pursuant to this agreement during 2007 were \$2,576,761.

Operating Agreement with HealthKeepers, Inc.

Effective October 1, 1997, the Corporation entered into an Operating Agreement with HealthKeepers, Inc. ("HealthKeepers") Pursuant to the agreement, HealthKeepers shall provide certain claims processing, enrollment, and customer and administrative services. For these services the Corporation shall pay all direct costs and indirect allocable costs monthly. Expenses incurred by the Corporation pursuant to this agreement during 2007 were \$154,454.

Services Agreement with Anthem Health Plans of Virginia, Inc.

Effective January 1, 1996, the Corporation entered into a Services Agreement with AHPVA whereby AHPVA shall provide certain services as outlined in the agreement. During 2007, AHPVA provided marketing, underwriting, actuarial, medical management, legal, information systems, mental health management and drug utilization review to the Corporation. For these services the Corporation shall pay all direct costs and indirect

allocable costs monthly. Expenses incurred by the Corporation pursuant to this agreement during 2007 were \$1,088,218.

Information Technology Services Agreement with Anthem Insurance Companies, Inc.

Effective January 1, 2005, the Corporation entered into an Information Technology Services Agreement with Anthem Insurance Companies, Inc. ("AICI"). Pursuant to the agreement, AICI shall provide information technology services for desktop applications, security and disaster recovery, user support, applications maintenance and support, voice and data networks, internet infrastructure and eBusiness support, specific project programming, data center and data warehouse storage. For these services, the Corporation shall pay the actual monthly costs incurred by AICI that are allocated to the Corporation based on employee headcount or direct use percentage. The Corporation incurred \$1,368,118 in fees related to the agreement in 2007.

Inter-Company Service Agreement with Community Insurance Company

Effective September 1, 2005, the Corporation entered into an Inter-Company Service Agreement with Community Insurance Company ("CIC") whereby CIC shall provide certain administrative and benefit management services to support the Corporation's offering of Medicare Advantage health benefit plans to its covered members. For these services, the Corporation shall reimburse CIC a monthly fixed cost and a variable cost based on projected administrative expenses per covered member per month. Within 90 days after the end of the calendar year, a review of CIC's actual expenses incurred to support the Corporation shall be conducted. If the Corporation's monthly fixed and variable cost fees for the calendar year exceed CIC's actual costs then CIC shall refund the excess to the Corporation. If CIC's actual costs exceed the Corporation's monthly fixed and variable cost fees for the calendar year then the Corporation shall pay CIC the difference. The Corporation incurred \$0 in fees related to the agreement in 2007.

Dividends

The Corporation paid cash dividends of \$3,571,606 and \$12,105,659 to Anthem Southeast and RHA in 2005 and 2006, respectively. On August 24, 2007, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of \$22,144,453 to Anthem Southeast and RHA. The Bureau approved the Corporation's request on September 11, 2007 and the dividend was paid on September 25, 2007.

CONFLICT OF INTEREST

The Corporation has adopted WellPoint's corporate conflict of interest policy. The policy states that directors, officers and associates must discharge their business responsibilities in a manner that furthers the interests of the Corporation and must not compromise the interests of the Corporation because of a conflict of interest with their other business or personal interests. Directors, officers and certain employees are required to complete a conflict of interest disclosure form in order to disclose business and personal interests that could be adverse to the interests of the Corporation. The objective of the disclosure is to protect the interests of the Corporation and alert its directors, officers and its responsible employees to business decisions and activities for which they must exercise special care or in which they should not participate.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2007, the Corporation was listed as a named insured on WellPoint's financial institution bond with a \$10,000,000 limit of liability, subject to a \$750,000 deductible, to insure against losses arising from dishonest acts of its officers and employees. In addition, the Corporation was listed as a named insured on a commercial property insurance policy, a general liability policy, a business automobile liability policy, an umbrella liability policy, a workers compensation and employers liability policy, a directors and officers liability policy, a fiduciary liability policy, a managed care professional liability policy and a financial institution electronic and computer crime policy.

TERRITORY AND PLAN OF OPERATION

At December 31, 2007, the Corporation's service area, as reported in its 2007 Annual Statement, included the cities of Alexandria, Bedford, Charlottesville, Chesapeake, Colonial Heights, Danville, Emporia, Fairfax, Falls Church, Franklin, Fredericksburg, Hampton, Hopewell, Manassas, Manassas Park, Newport News, Norfolk, Petersburg, Poquoson, Portsmouth, Richmond, Roanoke, South Boston, Suffolk, Virginia Beach and Williamsburg. In addition, the service area included the counties of Accomack, Albemarle, Amelia, Arlington, Bedford, Botetourt, Brunswick, Buckingham, Buena Vista, Caroline, Charles City, Charlotte, Chesterfield, Clarke, Craig, Cumberland, Dinwiddie, Essex, Fairfax, Fauquier, Floyd, Fluvanna, Franklin, Frederick, Giles, Gloucester, Goochland, Greene, Greenville, Halifax, Hanover, Henrico, Isle of Wight, James City, King and Queen, King George, King William, Lancaster, Lexington, Loudoun, Louisa, Lunenburg, Madison, Mathews, Mecklenburg, Middlesex, Montgomery, Nelson, New Kent, Northampton, Northumberland, Nottoway, Orange, Page, Pittsylvania, Powhatan, Prince Edward, Prince George, Prince William, Pulaski, Radford, Rappahannock, Richmond, Roanoke, Rockbridge, Salem, Shenandoah,

Southampton, Spotsylvania, Stafford, Surry, Sussex, Tazewell, Warren, Westmoreland, Winchester, Wythe and York.

Medical services are provided by physicians in independent practice within the Corporation's service area. Each member chooses a primary care physician ("PCP") from a list of the Corporation's primary providers. The PCP is responsible for coordinating all of the member's health care needs. Except in emergencies, a member must obtain services only from, or prearranged by, their PCP. Specialty physicians are available only with a referral from a PCP. All hospital admissions must be arranged by the member's PCP and approved in advance by the Corporation. In addition, the Corporation offers a point of service option which allows a member to receive services from outside of the Corporation's participating network of providers.

At December 31, 2007, the Corporation had a contract with the Virginia Department of Medical Assistance Services to administer coverage to Medicaid enrollees which comprised 39% of its premium revenue in 2007.

PROVIDER AGREEMENTS

Medical Services

The Corporation has entered into agreements with numerous PCPs and specialist physicians to render, provide or arrange for the provision of covered health care services to enrollees. The Corporation compensates participating physicians either on a capitated basis or a fee-for-service arrangement. Additionally, PCPs participate in an incentive program based on qualitative measures such as quality of care, as well as service and resource management.

Hospital Care

The Corporation has entered into agreements with a number of hospitals in its service area to provide covered hospital services to its enrollees. The Corporation compensates participating hospitals on either a case/admission rate basis or a per diem rate basis.

Other Health Care Services

The Corporation has entered into various ancillary service agreements. These agreements provide mental health services, pharmacy services, home health care, physical therapy, durable medical equipment and other related covered health care services. Compensation is based on arrangements set forth in each contract.

CONTRACT FORMS**Group Contracts**

The group contracts generally cover the following services provided by PCPs, specialty care physicians and other participating providers:

1. Primary care physician services
2. Specialist physician services
3. Inpatient hospital services
4. Preventative services
5. X-Ray and laboratory services
6. Maternity care services
7. Skilled nursing facilities services
8. Rehabilitative services
9. Outpatient mental health and substance abuse services
10. Home health care services
11. Durable medical equipment
12. Prescription drug services
13. Organ transplant services
14. Emergency and urgent care services
15. Ambulance services

Exclusions generally include benefits related to a non-covered service, cosmetic treatment, experimental procedures, custodial care, personal comfort items, long-term rehabilitative therapy and routine foot care. Other services which are excluded unless coverage is included in the group contract are vision care and dental care.

The above are general summaries of coverages and exclusions and the provisions in each individual group contract may vary.

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the ten-year period ending December 31, 2007. The data is compiled from the Corporation's filed Annual Statements, previous examination reports, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>
1998	\$21,611,094	\$11,377,928	\$10,233,166
1999	26,185,979	12,401,833	13,784,146
2000	37,856,419	17,630,264	20,226,155
2001	43,948,745	22,443,356	21,505,389
2002	51,950,203	18,317,149	33,633,054
2003	54,511,244	23,012,781	31,498,463
2004	67,814,538	32,098,476	35,716,062
2005	79,357,363	34,696,615	44,660,748
2006	82,724,187	38,481,737	44,242,450
2007	78,348,869	44,851,009	33,497,860

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gain</u>	<u>Medical & Hospital Expenses</u>	<u>Administrative & Other Expenses</u>	<u>Pre-Tax Income (Loss)</u>
1998	\$60,348,614		\$45,648,170	\$8,259,155	\$6,441,289
1999	68,582,306		54,229,053	8,833,164	5,520,089
2000	80,266,403		62,940,457	10,127,301	7,198,645
2001*	94,243,914	\$2,383,037	82,809,937	10,529,188	3,287,826
2002	106,766,991	2,521,623	76,580,768	11,346,596	21,361,250
2003	119,600,964	1,715,860	94,450,355	12,187,777	14,678,692
2004	117,742,539	2,364,303	95,572,327	14,280,152	10,254,363
2005	138,434,724	2,241,282	107,142,751	15,224,217	18,309,038
2006	149,750,908	2,489,133	120,302,839	14,073,475	17,863,727
2007	161,074,023	3,524,241	131,381,632	16,694,459	16,522,173

*Prior to 2001, Net investment gains or losses were included in Total Revenue.

The Corporation's enrollment data at year-end is illustrated as follows:

<u>Year</u>	<u>Number of Members</u>
1998	38,619
1999	44,024
2000	49,607
2001	52,327
2002	52,004
2003	55,017
2004	50,201
2005	52,039
2006	53,227
2007	54,499

SPECIAL RESERVES AND DEPOSITS

At December 31, 2007, the Bureau required that the Corporation maintain a minimum of \$500,000 on deposit with the Treasurer of Virginia.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2005 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRA) were required had medium or low risk assessments as determined from the National Association of Insurance Commissioners Examiners Handbook. Analytical review procedures were applied for non-SRA items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Corporate Records
Management and Control
Transactions with Affiliates
Conflicts of Interest
Fidelity Bond and Other Insurance
Territory and Plan of Operation
Provider Agreements
Contract Forms
Special Reserves and Deposits
Accounts and Records
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2007; a statement of revenue and expenses for the year ending December 31, 2007; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2007. The financial statements are presented in accordance with Statutory Accounting Practices.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$61,433,575		\$61,433,575
Preferred stocks	133,952		133,952
Cash and short-term investments	<u>9,263,417</u>		<u>9,263,417</u>
Subtotals, cash and invested assets	\$70,830,944	\$0	\$70,830,944
Investment income due and accrued	693,601		693,601
Uncollected premiums and agents' balances in the course of collection	606,891	38,690	568,201
Amounts recoverable from reinsurers	649,354		649,354
Amounts receivable relating to uninsured plans	844,891		844,891
Net deferred tax asset	1,478,588	361,049	1,117,539
Receivables from parent, subsidiaries and affiliates	2,667,104		2,667,104
Health care and other amounts receivable	1,748,295	771,060	977,235
Aggregate write-ins for other than invested assets	<u>877,901</u>	<u>877,901</u>	<u>0</u>
Total assets	<u><u>\$80,397,569</u></u>	<u><u>\$2,048,700</u></u>	<u><u>\$78,348,869</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$15,598,284	\$612,503	\$16,210,787
Accrued medical incentive pool and bonus amounts	739,095		739,095
Unpaid claims adjustment expenses		644,411	644,411
Aggregate health policy reserves		1,903,670	1,903,670
Aggregate health claim reserves		52,195	52,195
Premiums received in advance		1,879,015	1,879,015
General expenses due or accrued		445,468	445,468
Current federal income tax payable and interest thereon		414,613	414,613
Ceded reinsurance premiums payable		139,180	139,180
Remittances and items not allocated		53,310	53,310
Amounts due to parent, subsidiaries and affiliates		5,636,119	5,636,119
Liability for amounts held under uninsured plans		16,733,146	16,733,146
Total liabilities	<u>\$16,337,379</u>	<u>\$28,513,630</u>	<u>\$44,851,009</u>
Common capital stock			\$5,000
Gross paid in and contributed surplus			9,995,000
Unassigned funds (surplus)			<u>23,497,860</u>
Total capital and surplus			<u>\$33,497,860</u>
Total liabilities, capital and surplus			<u><u>\$78,348,869</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$161,111,209
Change in unearned premium reserves and reserve for rate credits	XXX	(37,186)
Total revenues	XXX	\$161,074,023
Hospital and Medical		
Hospital/medical benefits	\$1,964,076	\$66,635,088
Emergency room and out-of-area	549,442	3,080,359
Prescription drugs	933,784	24,713,948
Aggregate write-ins for other hospital and medical	1,592,040	39,175,702
Incentive pool, withhold adjustments and bonus amounts		473,679
Subtotal	\$5,039,342	\$134,078,776
Less:		
Net reinsurance recoveries	2,697,144	2,697,144
Total hospital and medical	\$2,342,198	\$131,381,632
Claims adjustment expenses	4,897,622	4,897,622
General administrative expenses	10,307,041	10,307,041
Increases in reserves for life and accident and health contracts		1,692,154
Total underwriting deductions	\$17,546,861	\$148,278,449
Net underwriting gain	XXX	\$12,795,574
Net investment income earned		\$3,554,669
Net realized capital gains or (losses)		(30,428)
Net investment gains		\$3,524,241
Miscellaneous income		\$202,358
Net income before federal income taxes	XXX	\$16,522,173
Federal income taxes incurred	XXX	6,076,800
Net income	XXX	\$10,445,373

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Capital and surplus prior reporting year	<u>\$35,716,062</u>	<u>\$44,660,748</u>	<u>\$44,242,450</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income	\$12,136,067	\$12,144,453	\$10,445,373
Change in net unrealized capital gains and (losses)	5,376	3,919	(15,343)
Change in net deferred income tax	(251,126)	(170,075)	559,838
Change in nonadmitted assets	625,975	(290,936)	409,995
Dividends to stockholders	<u>(3,571,606)</u>	<u>(12,105,659)</u>	<u>(22,144,453)</u>
Net change in capital and surplus	<u>\$8,944,686</u>	<u>(\$418,298)</u>	<u>(\$10,744,590)</u>
Capital and surplus end of reporting year	<u><u>\$44,660,748</u></u>	<u><u>\$44,242,450</u></u>	<u><u>\$33,497,860</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$162,142,079
Net investment income	3,787,866
Total	<u>\$165,929,945</u>
Benefit and loss related payments	\$129,718,103
Commissions, expenses paid and aggregate write-ins for deductions	13,050,108
Federal income taxes paid	5,515,000
Total	<u>\$148,283,211</u>
Net cash from operations	<u>\$17,646,734</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$17,568,862
Net gains or (losses) on short-term investments	805
Miscellaneous proceeds	6,797
Total investment proceeds	<u>\$17,576,464</u>
Cost of investments acquired (long-term only):	
Bonds	\$20,961,331
Total investment acquired	<u>\$20,961,331</u>
Net cash from investments	<u>(\$3,384,867)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	(\$22,144,453)
Other cash applied	<u>(1,716,925)</u>
Net cash from financing and miscellaneous sources	<u>(\$23,861,378)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	(\$9,599,511)
Cash and short-term investments:	
Beginning of the year	<u>18,862,928</u>
End of the year	<u><u>\$9,263,417</u></u>

SUBSEQUENT EVENT

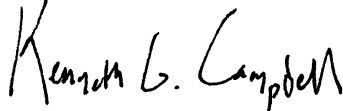
Effective July 7, 2008, Anthem Southeast purchased the outstanding shares of common stock owned by RHA representing 49% ownership in the Corporation. Subsequent to the purchase, Anthem Southeast owns 100% of the Corporation's outstanding common stock.

CONCLUSION

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Darrin Bailey, CFE, Cliff Lewis, CFE, George Morgan, CFE, and LeShan Smith participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Kenneth G. Campbell". The signature is written in a cursive style with a large initial 'K' and a stylized 'C'.

Kenneth G. Campbell, CFE
Assistant Chief Examiner

C. Burke King
President
Virginia Market

Anthem Blue Cross and Blue Shield
2015 Staples Mill Road
Richmond, Virginia 23230
Tel 804-354-3516
Fax 804-354-2075
burke.king@anthem.com



September 25, 2008

Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
Tyler Building, 6th Floor
1300 Main Street
Richmond, VA 23219

RE: Peninsula Health Care,, Inc. Financial Examination Report
as of December 31, 2007

Dear Mr. Smith:

This letter is to confirm receipt of the above report. We noted there are no recommendations of corrective action to address. Thank you for the cooperation extended by your team during this examination.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Burke King". The signature is stylized with large, flowing letters.

C. Burke King
President
Virginia Market